The New Generation Communications Company

NETWORK ip

January 24, 2006

Secretary
Federal Communications Commission
445 12th Street, S.W.   **DOCKET FILE COPY ORIGINAL**
Washington, D. C. 20554

To Whom It May Concern:

Attached you will find the System Audit Report and Auditor's Letter of Certification for
Network Enhanced Telecom, LLP for the payphone compensation audit for 2005 as required
by the FCC under Section 64/1310(a)(1) of the CC Docket No. 96-128. This audit attests to
the fact that the company maintains a payphone compensation processing system that is
compliant with the FCC's rules.

An additional requirement of the Commission is that the Completing Carrier must provide
name and contact information for the person responsible for handling the payphone
compensation and resolving disputes.

As of July 1, 2004, Network Enhanced Telecom, LLP contracted with Billing Concepts, Inc.
to process and manage its payphone call records for payment to and dispute resolution with
payphone service providers.

Below is provided our internal contact information as well as contact information for our
payphone compensation clearing-house, Billing Concepts.

Completing Carrier: Network Enhanced Telecom, LLP

Brian Mashburn   Peggy Gaitan
Carrier Billing Manager   Dial Around Compensation Manager
Network Enhanced Telecom, LLP   Billing Concepts, Inc.
119 W. Tyler Street, Suite 100   7411 John Smith Drive, Suite 200
Longview, TX 75601   San Antonio, TX 78229
903-323-4819   210-949-7109
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bmashburn@networkip.net   peggy.gaitan@billingconcepts.com

Please file this audit of record with the FCC and provide a confirmation number to me as
soon as possible.

Thank you for your assistance and please call me should you have any questions.
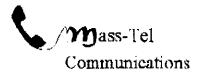
Sincerely,

Toni Van Burkleo
Chief Financial Officer

No. of Copies rec'd __0__
List ABCDE

Telecommunications Audit Department
Carrier Compliance

Missy Sue Mastel, CPA

/**m**ass-Tel

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FINAL

Auditors Report: FCC Order 96-128

We have examined the accompanying description of the controls at Network Enhanced
Telecom, dba NetworkIP, (NetworkIP) applicable to recordkeeping, reporting, and
payment provided to payphone service providers serviced through the switch. Our
examination included procedures to obtain reasonable assurance about whether (1) the
accompanying description presents fairly, in all material respects, the aspects of
NetworkIP's controls as it related to PSP compensation, (2) the controls included in the
description were suitably designed to achieve the control objectives specified in the
description, if those controls were complied with satisfactorily, and (3) such controls
have been in place since June 30, 2004. Our examination was performed in accordance
with standards established by the American Institute of Certified Public Accountants and
included those procedures we considered necessary in the circumstances to obtain a
reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of
NetworkIP, presents fairly, in all material respects, the relevant aspects of NetworkIP's
controls that have been placed in operation since June 30, 2004. Also, in our opinion, the
controls, as described, are suitably designed to provide reasonable assurance that dial
around compensation objectives, as documented in FCC Order 96-128 would be achieved
if the described controls were complied with satisfactorily and third parties applied those
aspects of internal control contemplated in the design of NetworkIP's controls.

In addition to the procedures we considered necessary to render our opinion as expressed
in the prior paragraph, we applied tests to specific controls, as listed in Section 4, to
obtain evidence about their effectiveness in meeting the related control objectives during
the period from April, 2005 to June 30, 2005. The specified control objectives, controls,
and the nature, timing, and results of the test are listed in Section 5. This information has
been provided to all interested parties. In our opinion, the controls that we tested are
operating with sufficient effectiveness to provide material and reasonable assurance that
the control objectives were achieved during the period between April 1, 2005 and June
30, 2005.

The relative effectiveness and significance of specific controls at NetworkIP and their
effect on assessments of control risk for PSPs are dependent on their interaction with
internal control, and other factors present at PSPs and PSP aggregators, as well as the
internal controls of third parties involved in NetworkIP's processing of PSP dial around

compensation. We have performed no procedures to evaluate the effectiveness of internal control at any third party associated with this process.

The description of controls at NetworkIP is as of June 30, 2005 and information about tests of the operating effectiveness covers the period from April 1, 2005 to June 30, 2005. Any projection of such information into the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at NetworkIP is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of NetworkIP, PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

Sincerely,

Missy Sue Mastel, CPA
Mass-Tel Communications

Section 1: Overview of Operations and Internal Control Features

Overview of Operations

Beginning on April 1, 2004, NetworkIP entered into an agreement with Billing Concepts), Inc. (BCI). to provide an outsourced solution to the record-keeping, validation and payment of Dial-Around Compensation requirements. To that end, much of the process described in the processing and handling of Dial-Around Compensation ("DAC") is internal to BCI and has been audited by independent auditors. While we may reference aspects from their report in describing the overall process, we have not audited these systems and processes, and are relying on the information provided and audited by BCI and their independent auditors.

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the SBR (switched based resellers) or LEC by providing a list of ANIs, and the LEC and SBR match those ANIs to Call Detail Records (CDRs) from the switch, and pay on all calls that require compensation. Since payment is only due on completed calls when dial around services are used, the carrier's CDR utility program captures all relevant data pertaining to whether the call requires DAC or not.

As a result of contracts beginning in April, 2004, BCI will be providing reconciliation and payment services with regard to PSP compensation for NetworkIP.
As such, we have reviewed the report on internal controls verified by the BCI Auditors, Padgett, Stratemann and Co, LLP. While we have not reviewed the internal controls at BCI, we note that they have been audited, and that we are relying on their internal controls over the processes that affect the accuracy of the PSP compensation services provided.

In the quarter under review and for all quarters since July 1, 2004, all PSP and PSP aggregators who invoice NetworkIP for DAC are using the BCI platform for processing. The only exception is for International Toll Free Services (ITFS) calling, for which all surcharges are billed by the underlying carrier. As these calls are internationally generated, we do not believe they are a concern of the FCC 96-128. Appears reasonable. We will perform procedures on the domestic reconciliation processes as it pertains to the accuracy, timeliness and completeness of the records for DAC.

General Operations

NetworkIP sells toll free service for prepaid calling cards to their customers, including LECs and other SBRs who want to offer toll free based calling cards to their customers.

These numbers are then printed on cards and sold to end users. Thus, all the calls processed through the Nortel switch are coinless calls, although payphone, operator services and hotel phones are common methods of access.

As an SBR, NetworkIP does not have any direct relationships with the PSPs or PSP aggregators. All payphone owners with claims against the calls that are processed through the NetworkIP's switch invoice BCI, who keeps an ANI master list on behalf of all the PSP carriers. NetworkIP records every call that comes in with an infodigit that proscribes whether the call originates from a payphone. A report of completed and compensable calls tracked in their switch is generated each month and uploaded to BCI, who reconciles the call data against the ANIs invoiced. Reports are prepared for NetworkIP summarizing the calls that were reconciled, suspended, and back-paid, and a bill for payment is generated. A wire transfer payment is made to BCI, who in turn prepares another report and checks for the PSPs and PSP aggregators summarizing the calls made over their ANIs. Disputes with the PSP are generally handled by the LEC.

General Reconciliation Process

NetworkIP has allowed a third party, BCI, to manage the PSP vendors, receive invoices relating to the BTNs under management by the various payphone providers and their associations, and submits invoices or claim reports, to NetworkIP for payment. The PSP submits its ANIs and invoices, if available, to BCI. Since NetworkIP is an SBR, not a LEC, it does not keep ANI databases, rather only provides call record detail to BCI for their reconciliation process so that the LECs can reimburse their subscribing PSPs.

Each quarter, reports on CDRs are generated by the NetworkIP's ODESSI Platform, using parameters that ensure that all eligible compensable calls are recognized. These reports generate CDRs that are flagged "1" in the payphone field, come in on carrier specific trunks, and have a 27, 70, or 29 in the info ID field. 29 is an uncommon digit identifier since it indicates a prison payphone. We note NetworkIP had not been recognizing 07 as an infodigit, as they had received information from their carrier that 07 was not a valid payphone digit in use anymore. We tested the occurrence of this digit, and noted that it is less than 1% of their total calls. Additionally, 07 infodigits can be sourced from other phones that are not payphones, and NetworkIP had received complaints from their customers around misbilling for 07 infodigits as payphone originating calls. We recommended that NetworkIP run additional queries for the 2nd quarter, 2005 that match up both the 07 infodigit and the compensable payphone ANIs to determine the materiality of the non-compensed 07 infodigit. If the amount is determined to be material, then we recommend that NetworkIP perform a sort of data on the 07 infodigit each quarter, using an APCC provided list of exclusively 07-coded ANI lines. NetworkIP has agreed to begin this process to determine materiality. Appears reasonable

For BCI reconciliation
CDRs are sorted via the ODESSI platform into a report, called the *cdr payphone yyyymm table*. This report is prepared on the 2nd of the month for the previous month. The calls sent to BCI following criteria:

1) The inbound carrier is one of those listed in the CARRIERS file

2) The billing service is not a tandem service (one where the customer has agreed to handle their own DAC responsibility)

3) The inbound trunk group is not supplied by the customer (the customer again has DAC responsibility)

4) The DNIS begins with 800, 866, 877, or 888

The records are written to the file according to the format table required by BCI, including CIC codes and carrier identifiers. The file is then compressed and put into another server with public internet access so that BCI can access the approved records via FTP on the 5th of the month.

BCI performs reconciliation on a quarterly basis, whereby they compare ANIs reported by the PSPs to the database of calls provided by the ODESSI platform reports, and validates the claims for payment by the PSPs. All ANIs provided by the PSPs are kept in a database by BCI with status and status codes, and are validated by the LECs.

The BCI reconciliation also has a potential fraud check in their system, currently set to 720 calls per ANI per month—any ANI reported that has a count in excess of this amount is called out as an exception and further investigation is undertaken.

Claim reports sorted into various spreadsheets by carrier, by check, and by submission are available and are submitted to NetworkIP, and once NetworkIP validates the report and the total, the agreed-upon amount is paid via wire transfer. BCI makes payment to the PSPs and aggregators accordingly.

For In-House reconciliation procedures (ITFS)

In general, the in-house procedure works on a total call record for a given process, and detail is not verified. However, most of the discrepancies between the carrier invoice and the CDRs stems from errors of classification between domestic and international calls. Thus the reconciliation and support that is sent to the underlying carrier result in a credit from the carrier in subsequent months. Network IP uses the reconciled CDRs with the infodigits and the type of completed calls, or digits dialed, fields to identify the non-compensable calls in their dispute.

Processing Detail

Nortel is a dumb switch and all call records are generated from the NetworkIP platform,. This platform routes, rates and records all the information pertaining to the call. CDRs

are created real time and then dumped into an Informix database. On the third of each month, Josh Owings, programmer, runs reports from the ODESSI platform sorted by carrier and date. These reports are delimited text files run in the DSMS program (Distributor Services Management System, reporting interface) from the switch. BCI performs all procedures for reconciling the data related to ownership of ANIs between the invoices provided by the PSP and the LEC validating information. Appears reasonable.

MCI also uses NetworkIP to process some calls over its own carrier-owned payphones, and these are handled over segregated trunk groups. For these call records, MCI maintains and provides NetworkIP with a payphone database, and reconciles all payphone ANI's. Since these are MCI's owned payphones, the carrier does not bill NetworkIP for DAC on these calls, but does take call records from NetworkIP for billing to the end user. PSP compensation on these trunk groups may have infodigits of 27, 29, 70 or possibly the old 07 for older payphones. We examined the logic on the MCI look-up table, appears a reasonable exception. MCI gathers the raw call data on these trunks and performs their own reconciliation.

Data Integrity

Per Toni Van Burkleo, CFO, and Josh Owings, Programmer, all records have been kept since inception and information related to CDRs is maintained live on the system for the past 13 months. After this period, all other files are burned to CD and stored at the bank, Per Josh, data integrity on these CDs is not tested regularly, although NetworkIP has agreed to institute procedures for regular testing of the back-up data, including uploading the offline database to an archive server and restoring the data to a server which is running Informix. Appears reasonable.

Reconciliation Process Detail of DAC for PSPs

For our understanding of the reconciliation process undertaken at BCI, we used the auditor's report of Padgett, Stratemann & Co., LLP, as submitted and included in our work papers.

The Payphone Service Providers submit their ANI information directly to BCI, Aggregator files are processed to ensure that the PSPs are properly grouped by company number. PSPs are able to make claims against the current and prior 6 quarters.

BCI is responsible for validating the files coming in from the LEC and the PSPs, creating the databases and updating them for the new information and disconnect information each quarter. A Utility program is used to process the disconnect files, then the LEC files and the PSP files (prior quarter changes are processed at the same time as the current quarter files). The processing creates reports, which are stored and archived to CD. Calls are sorted into categories by PSP and LEC, or SBR, and invalid claims, meaning ANIs without calls, and calls that are unmatched, are kept in suspense account n case the PSP will make a later claim on them.

At this point, ownership errors are identified and verified manually by BCl. Discrepancies in ANI reporting are attempted to be resolved first by comparing the data to prior quarter is used to try to identify the error. If the ANI is not located, it is reported to the PSP and updated to the payment information.

Once the errors have been corrected, ANI status report files are created for each PSP satisfying the reporting requirement to the PSP. An ANI Master List File is generated, and several reports, including ANIs assigned to PSP IDs and names are generated from this Master File.

At any time during the quarter, the SBR may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 6 quarters, as noted above.

Call Records

NetworkIP ensures the completeness and accuracy of the call records through their CDR gathering process.

NetworkIP sells toll free service for prepaid calling cards to its customers, including LECs and other SBRs who want to offer toll based calling cards to their customers. These numbers are then printed on cards and sold to end users. Thus, all the calls processed through the Nortel switch are coinless calls, although payphone operator services and hotel phones are common service providers.

Each toll Free DNIS that hits the switch is preprogrammed to a single customer's account. If a toll free number is dialed and the switch does not recognize it, it is not processed by the Nortel. We inquired as to whether a toll free number can be sent over from the Nortel Switch without being programmed to a customer, and those calls are reported as a non-assigned account which is then researched.
All toll free calls that originate on the NetworkIP network are routed to the NetworkIP switch for termination of the dialed number.

If the number is programmed into the switch but unassigned to a customer, then it is absorbed into the house account. Each NetworkIP customer has assigned toll free numbers that NetworkIP processes on its behalf, so the only numbers that are in the house account are test accounts and employee or vendor numbers, a small amount which is controlled by Network IP as it is non-revenue.

Call records are processed through a proprietary platform and ODESSI, a reporting/query platform that intersects with the Nortel. For each CDR, the system generates fields to identify the origination and completion information on the call. These are set up through logic that is programmed into the NetworkIP Platform.

- The infodigit field identifies what the service originating the call. 27, 70, and 29 are the proper identifiers for payphone services. We note that 07 is being reconstructed for 2nd quarter, 2005 to determine the materiality of the compensable subset of 07 CDRs. Appears reasonable.
- The Payphone Compensation field determines whether or not the call is eligible for payphone compensation.
- Out Flag - Determines whether or not the call was completed in the platform.
- Dial-Around - Determine whether the caller used a dial-around method to engage a different carrier via the equal access rules. 0 means no dial-around, whereby any other digit signifies that another carrier was selected by the end-user.
- Re-origination flag, which indicates whether the call is an additional call being made on the same original dial. Per discussion with Toni Van Burkleo, we noted that re-origination was not paid out due to a misunderstanding of the regulation, but that re-origination calls will be reconstructed for 2nd quarter, 2005 to determine the materiality of this DAC. Appears reasonable.
- Completion Flag - This is the only indication that the call has actually been picked up by the receiving party. In many instances, the LEC will invoice for delivered calls, which are calls that pass through their switch, but will not be able to determine whether the call has been completed. This is the main discrepancy that occurs in the LEC billing, and support for NetworkIP's claim is based on this field.

The NetworkIP Platform will attempt completion for up to 3 minutes before terminating the call and determining it to be an incomplete call.

CDRs are sorted via the ODESSI platform into a report, called the cdr_payphone_yyyymm table. This report is prepared on the 2nd of the month for the previous month. The calls sent over to BCI match the following criteria:

1) The inbound carrier is one of those listed in the CARRIERS file, and

2) The customers are not specifically excluded from the BCI process, generally because they handle their own DAC.

Files are sent over FTP in the pre-approved formats provided by BCI. Once validated, BCI backs up the file to CD, and copied to the server, and processed.

When the call records have been processed and the invoice summary table has been updated, the processing Clerk for BCI checks for fraudulent ANIs. A threshold of 720 calls per month per ANI triggers a fraudulent report and denies the PSP claim automatically. The responsibility for validating the call information lies with the PSP and the SBR.

The call records sent over are then run against the ANI master database for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly reports are generated

65 days after the quarter close, indicating what is being paid to BCI on behalf of the PSPs.

The quarterly reports summarize call records processed into one of the following categories:

1) No Claim - reflects calls associated with ANIs recognized by the SBR and appearing on the call records, but not yet claimed as an ANI owned by a PSP.

2) Claim Validated – reflects calls processed by ANIs that appear on invoices from PSPs, have been validated by the BCI systems that those ANIs belong to that PSP.

3) Claim Not Validated – reflects calls processed by ANIs belonging to PSPs that have requested compensation from users for the applicable quarter, but the SBR has not reported ownership information for these ANIs.

4) Suspense - reflects calls associated with ANIs involved in an ownership dispute. Ownership disputes result when the SBR reports different information related to ownership than the PSP, or when multiple PSPs claim the same ANI and the SBR information does not validate any of the claims.

5) Potential Fraud – reflects calls associated with ANIs that exceeds the 700 call threshold for the number of calls per month. Thresholds may be adjusted by Network IP via call request.

When PSP payments are approved via the report, the payment schedule files are used to create a spreadsheet that is sent to BCI' accounting department to process checks. The files are also used to create payment summary Reports that are sent to the PSPs with their check.

Once payments are sent, the Payment Detail files are used to mark the payment date in the Call Record entries and stored in the Invoice Summary tables, thus recording which calls have been paid upon and which remain outstanding due to ANI validation dispute or fraud. NO CLAIM calls are accrued.

When a quarter becomes ineligible for payment request, unpaid Call Records are marked as Expired on the Invoice Summary report, and all unclaimed call records are expired by the program.

Quarterly information is stored for two years. Stored databases at BCI are analyzed periodically to ensure that the data remains intact.

Disputes

If a PSP or aggregator has a dispute about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in greater detail. BCI will try to

resolve the issue by hand-checking the reports, and if BCI management cannot resolve the dispute, then the information is passed on to the LEC to try to obtain additional information.

Internal Controls

Control Environment and Organizational Chart

Platform responsibilities lie with Josh Owings, who programs the system to locate infodigits and other information relevant to the DAC system. Only 12 people have access to the Nortel and the Informix system, but these are limited, user-profiled, and secure. 3 people have full –control root-access, Tisha Oden, DBA, Bill Converse, Sr. Programmer, Dan Smith, programmer, all in Austin, have access to change payphone logic.

Monthly reports are gathered and sent to BCI by Josh Owings, Programmer, who sends them to BCI and sends a summary to Martha Middleton, Accountant, who reviews the reports on a monthly basis and reconciles them to the reports from ODESSI before Josh sends them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent to BCI. If there are discrepancies, Josh is asked to rerun the report, and then the report is reviewed manually.

At this point, the remainder of the processing of PSP compensation is processed by BCI and is reliant on their internal control structure.

The payment detail report is received within 65 days after the quarter ends and is reviewed by Martha and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. After review, it is approved by Toni Van Burkleo, CFO, and this approval is communicated to BCI and payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Payment of Invoice was due on September 16, so that the PSP can be paid by September 30, 2005. Appears reasonable.

We note that the BCI reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by NetworkIP in the following:

General Contract and Regulatory Requirements

Per the agreement between BCI and NetworkIP, each company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing business. NetworkIP has provided documentation that they recognize these requirements and understand their responsibility

to comply with them. At the same time, the integrity of the compensation system requires that BCI remains in compliance with all their attestations under the agreement. We also obtained and reviewed an executed copy of the agreement, which indicates each party understands of their obligations. Appears reasonable.

Access Controls

NetworkIP has maintained sufficient controls over who has access to switch and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:
- Limited access to switch and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

File Completeness and Timeliness

NetworkIP provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record files. The controls in place to provide such files are:
- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports generated on the 3rd and transferred on the 5th of the subsequent month

Payment Authorization

NetworkIP reviews and authorizes BCI to make payments to PSPs and aggregators from the summary payment documents submitted and validated with the LEC. Proper approval is controlled by Toni Van Burkleo, CFO.

Completeness of Records Processed

NetworkIP validates the summary payment reports received from the reconciliation process at BCI by creating a reconciliation report by month to ensure that all calls sent were processed. This ensures that the quarterly reports provided by BCI that summarize the number of records received and the results of the processing of those records, including the payments made on their behalf, are reconciled to the total number of records submitted. Appears reasonable.

Dispute Resolution

The FCC requires that a standardized process be in place to settle disputes that is data reliant. NetworkIP allows BCI to handle all disputes between the LEC and PSP with

regard to ANI ownership, and to provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable.

Payment Rate

NetworkIP uses the default rate with invoicing PSPs, there are no exceptions. For in-house procedures, the carriers were charging a slight margin on each compensable call, but these charges have been eliminated with the adoption of the BCI outsourced reconciliation and payment process. Internal controls relating to rate verification include validating on BCIs summary report that all calls are included at the .494 per eligible call rate.

Fraudulent Call ID

While BCI has a standard threshold for investigating fraud, which appears reasonable, we note that NetworkIP can influence this threshold if necessary by placing a call or an email to do so. Only specific personnel can do so. All ANIs where fraud is suspect are pulled out for further investigation by BCI personnel, and information necessary to corroborate the calling rates can be provided. We did note that there was an ANI indicating unusual calling trends during the quarter under review, and that BCI identified the ANI for NetworkIP. NetworkIP has put the ANI under further investigation before payment, and the PSP owner has been notified of additional procedures before payment. Appears reasonable.

Contingency Procedures

Because NetworkIP ran all of their reconciliation procedures in house before the adoption of the BCI external process, NetworkIP should be able to obtain the updated ANI Master List from BCI in the event of an emergency and pay PSPs and aggregators in a reasonable timeframe. Appears reasonable.

Section 2: Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- ➤ Policies and procedures are in place to ensure payment rates conform to FCC rules, either by default or as agreed to between parties.

- ➤ Policies and procedures are in place relating to reporting elements as required in the outsourced service Agreement

- ➤ Data is stored for a period at least as long as required by FCC rules.

- ➤ Procedures are in place to establish, corroborate and validate proper PSP ownership

- ➤ System reporting for all eligible calls is both accurate and complete

- ➤ Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to NetworkIP's system requirements

- ➤ Specific personnel have been identified for verifying compensation to PSPs

- ➤ Specific personnel have been identified for handling dispute resolution with PSPs

- ➤ Quarterly reports verified for payphone call counts, PSP identities, numbers called, and infodigits.

- ➤ Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.

- ➤ Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

- ➤ Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Description of Controls and Tests Performed

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between April 1, 2005 and June 30, 2005. Our tests of the operational effectiveness of controls were designed to cover the period from April 1, 2005 through June 30, 2005.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry – Made inquires of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.

2. Observation – Observed application of specific controls.

3. Inspection of evidentiary material –inspected documents and reports indicating the performance of the systems and controls.

4. Transaction testing – Used reports to recreate and document controls.

Key Control Objectives

Key Control Objective #1

Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.

Tests Performed

1) BCI calculates NetworkIP's DAC obligations based on the rates negotiated between the SBR and the PSP, or where applicable, the rates included in FCC Order 96-128. Per discussion with Toni Van Burkleo, there are no agreements for alternative rates with PSPs, since all PSP interaction prior to BCI was handled through the carriers. All rates at this point are the FCC default rate, which is currently $0.494 per compensable call.

   We reviewed the DAC service summary report, noting that the calls paid for the quarter for PSPs of carriers processed by BCI were at the default rate of .494. Appears reasonable,

2) For the ITFS services, we reviewed the June reconciliations NetworkIP performed against the LEC invoices, noting that discrepancies were based on number of calls,

but that every carrier is paid a minimum of .494 per compensable call. We found no exceptions. Excess payments exist where the carrier charges to invoice NetworkIP and process payment to PSPs. Appears reasonable.

Key Control Objective #2

Policies and procedures are in place relating to reporting elements as required in the DAC service Agreement

Policy or Procedure

Per discussion with Peggy Gaitan, Billing Manager for BCI, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the calls that originate by owner, the rate paid on each of those calls, carrier IDs, and information regarding the validity of the claim presented. Additional reports may be constructed for any party including ANI Master Lists, potentially fraudulent calls, dispute items, and other, as deemed necessary by any party.

Tests Performed

1) We reviewed the reports that were provided by BCI, noting that they were reconciled against internal reports by Martha Middleton, Accountant.

2) For the category "unmatched records", we noted that the detail for these calls was provided for accrual and investigation purposes.

Key Objective #3

Data is stored for a period at least as long as required by FCC rules.

Policy or Procedure

Through interviews with key personnel, we noted that all records are kept on CDs at the bank, and information related to CDRs is maintained live on the system for 13 months. Per Josh Owings, data integrity on these CDs has not been recently tested, and regular testing of the back-up data, including uploading the offline database to an archive server and restoring the data to a server which is running Informix, will now be performed regularly.

Key Objective #4

Policy or Procedure

Since NetworkIP does not deal with the PSP directly, it relies on the controls at BCI and the LEC to validate PSP ownership. To validate PSP ownership of the ANI being claimed by any specific PSP, the LEC is required to provide to BCI a list of all ANIs for which the LEC provided dial-tone service during the quarter. In this way, every claim for compensation should be verified by LEC information validating the owner and the ANI.

Test Performed

We reviewed the Internal Control report of BCI and noted that their auditors have tested PSP ownership validation, and concur with the steps taken to verify such. Appears reasonable.

Key Objective #5

System reporting for all eligible calls is both accurate and complete

Policy or Procedure

See above for detail description of payphone flag switch validation. In summary, the switch platform generates call detail records with payphone flags and infodigits, and any call with a payphone flag is picked up in a summary report run from the Informix reporting database and processed to BCI, or validated against LEC invoices. These summaries are sent to BCI or reconciled in house, and payphone reports are validated and or created before funds are transferred via wire transfer payment. We note Network IP had not been recognizing 07 or re-origination calls as DAC-compensable, as they had received information that these indicators were not valid DAC compensable for payphones. We tested the occurrence of these items, and noted that it is less than 1% of their total calls. Additionally, 07 infodigits can be sourced from other phones that are not payphones, and NetworkIP had received complaints from their customers around misbilling for 07 infodigits as payphone originating calls. We recommended that NetworkIP run additional queries for the 2nd quarter, 2005 that match up both the 07 infodigit, reorigination CDRs and the compensable payphone ANIs to determine the materiality of the non-compensed 07 infodigit and reorigination calling.. If the amount is determined to be material, then we recommend that NetworkIP perform a sort of data on the 07 infodigit each quarter, using an APCC provided list of exclusively 07-coded ANI lines. NetworkIP has agreed to begin this process to determine materiality. Appears reasonable.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at BCI to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We reviewed the payphone logic and determined that the field parameters are sound, with the exception, noted above of needing to identify re-origination and 07 digits as compensable. We note that these calls represent less than 1% of total calls. Appears materially reasonable.

3) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for BCI, noting that the entire sample of payphone flagged calls tested appears on the BCI report, with the exception of the 07 and reorigination calls, as discussed above.

4) We recreated the reconciliation of the BCI payment report to the NetworkIP monthly reconciliation report, without exception.

Key Objective #6

Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to NetworkIP's system requirements. Martha, Josh, Toni

Specific personnel have been identified for verifying compensation to PSPs - Martha

Specific Personnel has been identified for handling dispute resolution with PSPs - Martha

Policy or Procedure

NetworkIP has substantially segregated and assigned responsibility for drafting and maintaining necessary business requirements, like switch program logic, report preparation and formatting, validation of payment to PSPs and validation of reporting to various parties within the NetworkIP organization.

Tests Performed

We interviewed various personnel to understand their roles in the DAC process, noting:

1) That Josh Owings, as Programmer, is responsible for all the validity of the initial CDRs

2) That Ashley Johnson, Programmer, runs the report in Informix that is ultimately the basis for the formatted report that is submitted to BCI

3) That Martha Middleton, Accountant, verifies through the ODESSI system that the call records that were sent for payment validation are consistent with the payphone flagged CDRs that are presented through the platform originally

4) That Toni Van Burkleo authorizes the wire transfer to enable PSP payment after review of the report sent by BCI

5) That Martha Middleton is responsible for dispute resolution with carrier-customers and their PSPs, generating CDRs and reports that are used in dispute resolution, most often to validate the claims of incomplete or reorigination that indicate a non-compensable call.

Appears reasonable.

Key Objective #7

Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and infodigits.

Policy or Procedure

The detailed process narrative for BCI explains the procedures for generating these reports in greater detail. NetworkIP does ensure that BCI has monthly files of CDRs with payphone flags, ANIs, numbers called and infodigits and CIC codes so that originated calls with eligible DAC can be determined, and validated ANIs, non-validated ANIs, potentially fraudulent calls and calls with ownership issues can be identified.

Tests Performed

We reviewed the reconciliation report run from ODESSI and compared it to the summary payment report generated by BCI without exception. We note that CIC codes and Carrier IDs were added to the report beginning in March, 2005

Key Control Objective #8

Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.

Policy or Procedure

The introduction of BCI is an improvement to the identification and investigation of fraudulent calls. A report is run by BCI on each ANI to determine if the call volume exceeds the threshold of 720 calls per month. For all ANIs that exceed this limit, a fraud report is prepared that is submitted to NetworkIP, the PSP and the LEC which includes the ANI, PSP and call count.

Tests Performed

We inquired of personnel whether any fraudulent usage had yet been identified, and noted that there had been one ANI with an exceptional number of calls during the quarter under review. The ANI was identified to NetworkIP and the DAC was put into suspense until further investigation—i.e inquiry with BCI whether other SBRs had a similar experience of this ANI, request for call validation from the ANI owner—could be pursued. Appears reasonable.

Key Control Objective #9

Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

Policy or Procedure

See the narrative on DAC reconciliation and payment process above for greater detail. In summary, CDRs from the switch are sorted for payphone flags, these records are summarized in the appropriate format for BCI, who validates, reconciles and pays PSPs based on the intersection of information provided from the platform, the LEC and the PSP. A summary report of valid and invalid claims is sent to NetworkIP each quarter, which validates the report before wiring funds for payment to the PSP.

All data is stored on CDs in the bank, and 13 months are stored live on the system. Per discussion with key personnel, this data will be taken out and restored to an active, but not live, server to test control totals and ensure that the call records remain unchanged.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at BCI to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for BCI, noting that the entire sample of payphone flagged calls tested appears on the BCI report.

3) We recreated the reconciliation of the BCI payment report to the NetworkIP monthly reconciliation report, without exception.

Key Control Objective #10

Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Policy or Procedure

NetworkIP has established policies and procedures regarding system changes, including specific policies regarding:

- System change approval
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results

Tests Performed

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as re-origination flags and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with stated policy. Appears reasonable.